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CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB.CVO

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Versailles Economic Summit

--- I enclose a full record of the plenary sessions of the Summit. I am also sending copies of the record to Nigel Springthorpe (Treasury), Ian Fitzpatrick (Energy), Peter Lawrence (Trade), Vi Read (ODA), Peter Bunn (Industry), Peter McCarthy-Ward (Employment), Robin Nicholson (CPRS), and of course to John Coles (No 10).

D. J. WRIGHT

(D J Wright)
Private Secretary

R A Burns Esq

Relations with Developing Countries

M Delors (France) said that Ministers of Finance had been considering that part of the draft declaration prepared by Personal Representatives which dealt with relations with developing countries. They had agreed upon an amendment of part of the text, with a view to making certain additional points, and to demonstrating to the developing countries the political will of the industrialised countries to assist them.

Mr McEachan (Canada), supporting Monsieur Delors, said that it was important for the Versailles Economic Summit to signal a political will to deal with outstanding issues, such as the replenishment of IDA, the role of regional banks, and countering instability in commodity earnings. There had been problems in the financing of the World Bank; and the delay in replenishment of the IDA had generated interest in the proposal for an IDA Special Fund.

The Chancellor of the Exchequer supported Monsieur Delors and Mr McEachan. He said that a revised text would be ready shortly, for consideration by Heads of State or Government.

There followed interventions by Mr Suzuki (Japan) and M Thorn (European Community).

President Reagan (United States) said that the United States wanted to help developing countries; but they had had to stretch the period over which the United States contributed to the replenishment of IDA. He stressed that private flows were more important to the developing countries than official aid. On global negotiations, he said that the draft declaration produced by the Group of 77 at Bedjaoui did not fully cover the anxieties which he had expressed at Cancun about the need to protect the integrity and independence of the specialised agencies, but the United States could now go along with the Bedjaoui draft resolution if it was amended as was now being proposed.

The Chancellor of the Exchequer agreed that the Bedjaoui text needed to be amended to protect the integrity of specialised agencies. He said that the United Kingdom would support the proposal for an IDA Special Fund. On the proposal for an energy affiliate of the IBRD, while the United Kingdom supported

the principle of helping the developing countries to increase indigenous energy production, it seemed that, with the reduction of the financial surpluses being earned by the oil-producing countries, the case for an energy affiliate might have been overtaken: part of the purpose had been to attract greater contributions from the oil-producing countries. He suggested that it would be right for the Summit to endorse the need to improve energy and food production for the developing countries, but not now to endorse the proposal for an energy affiliate of the IBRD.

Mr McEachan said that the text on Global Negotiations in the draft declaration was in very general terms. Ministers of Finance had, as the Chancellor of the Exchequer had indicated, discussed and agreed amendments to the draft resolution proposed by Group of 77 at Bedjaoui. He wondered whether the proposed amendments needed to be considered by Personal Representatives.

The Chancellor of the Exchequer suggested that the texts did not need to be discussed by Heads of State or Government.

President Mitterrand proposed that the amended text for the draft declaration should be considered in the course of the meeting's consideration of the draft declaration as a whole.

Signor Spadolini (Italy) said that Italy remained convinced that it was in the interests of the industrialised countries to maintain a dialogue with the developing countries, for economic as well as for political reasons. He stressed the importance of increasing indigenous food and energy production in the developing countries, and in that context expressed reservations about the adequacy of private flows for this purpose. He expressed hopes for the support and success of a conference which the Italian Government would be organising on this subject in the autumn.

Draft Declaration

Mr Trudeau (Canada) thought it was desirable to inject a greater sense of crisis and urgency in the introduction to the declaration. He quoted a leader from that day's Sunday Times in which it was stated that the seven Summit leaders were "not scared enough" about the world economic prospects. The declaration needed to create a sense of confidence and provide leadership.

Chancellor Schmidt (Germany), while not disagreeing with Mr Trudeau, reminded the meeting that, despite criticisms that were made of the current state of the world economy and the management of it, the industrialised countries had over recent years kept clear of beggar-my-neighbour policies, had prevented the world from lapsing into the situation which had developed in the 1930s, and prevented the oil price shocks from driving the world into deep recession. From these facts he derived a certain "sceptical optimism".

The Prime Minister agreed upon the need to inject into the introduction of the communique a sense of greater urgency, but warned against the use of the word "crisis", which could have a damaging effect upon confidence. She proposed amendments to the draft declaration to meet the points made in discussion; these amendments were accepted by the meeting.

M Cheysson (France) introduced a group of amendments proposed by Foreign and Finance Ministers to the paragraph in the draft declaration dealing with international monetary questions. It was proposed that, instead of talking about "insupportably" high interest rates, the declaration should refer to "unacceptably" high exchange rates; and that the sentence in question should be followed by a further sentence which would make it clear that the reduction of interest rates would require an increase in the achievement of stringent fiscal policies.

President Mitterrand objected to the use of the word "stringent", though he agreed upon the substance of the proposal.

President Reagan suggested that there should be a reference to monetary as well as to fiscal policies.

Mr McEachan suggested that what was said in this declaration should not be less forceful than what Finance Ministers had said in the Interim Committee of the International Monetary Fund.

Mr Trudeau said that all were agreed that high United States interest rates were the problem. Perhaps the meeting could help the President of the United States by including in the declaration a sentence to the effect

that they were agreed that the reduction of high interest rates necessary for economic recovery required urgent budgetary action by the United States. Would that help President Reagan with the Congress, or was it too blunt?

President Reagan said that, if a sentence of that kind was included in the declaration, the only press headlines the following day would be "disarray among the seven" and "attack on United States interest rates". He would go home to a Congress that would think it had been slapped in the face. Nevertheless he could assure his colleagues that it was the intention of the United States Administration progressively to reduce the United States budget deficit with a view to its eventual elimination.

Chancellor Schmidt betted his hat that President Reagan would not achieve that.

After further discussion agreement was reached on a text proposed by the Chancellor of the Exchequer as follows: "In order to achieve this essential reduction of real interest rates we will as a matter of urgency pursue prudent monetary policies and achieve greater control of budgetary deficits".

The meeting considered the statement of international monetary undertakings annexed to the draft declaration. This was approved, subject to the deletion of the second sentence of paragraph 6 of the draft.

The meeting approved the paragraph on trade in the draft declaration, as drafted by the Personal Representatives.

The meeting then considered a revised draft paragraph on East-West trade prepared by Finance Ministers.

In the course of discussion it was suggested that the declaration should not refer in terms to COCOM. The Prime Minister proposed a revision of the relevant sentence of the declaration which omitted the references to COCOM.

There was a long discussion of the last clause of the sentence relating to the need for caution in financial relations with the Soviet Union and Eastern European countries, which spoke of the need to limit export credits in the light of commercial prudence.

President Mitterrand said that the political question was whether the West helped the Soviet Union when they granted export credits. He drew attention to the relatively small amount of capital goods sold to the Soviet Union by France. France already had a restrictive policy, and they were breaking off half their contracts with the Soviet Union so as not to export technology. Limiting credits to the Soviet Union did not necessarily limit exports to the Soviet Union; but of course nobody wanted an export embargo. The concentration on export credits would penalise France, because France lent so little to the Soviet Union. It would mean that the United States and German trade to the Soviet Union would continue at high level, because they already traded at much higher levels than France. He was prepared to discuss a sentence which talked about the need to limit exports to the Soviet Union, but he found it difficult to accept a sentence about the need to limit export credits.

After an intervention by Signor Spadolini, President Mitterrand said he could accept a clause which read: "including the need to limit exports in the light of commercial prudence".

The Prime Minister suggested that the proposed monitoring of East-West trade would in due course show whether there was a need to limit exports. She suggested that for the present the meeting should agree upon a clause which would read: "including the need to limit export credits in the light of commercial prudence", and consider whether to go further the following year.

In due course President Mitterrand withdrew his proposal about limiting exports, and suggested that the meeting should choose between the clause proposed by Mrs Thatcher and an alternative proposed by Mr Trudeau which would read: "including the need to handle export credits in the light of commercial prudence".

Mr Haig (United States) repeated the point that the proposed monitoring would show whether trade needed to be restricted. In the meantime the Summit countries knew that they could do better on officially supported export credit. He hoped that the meeting could revert either to the formula originally proposed by Finance Ministers or to that proposed by Mrs Thatcher.

Signor Spadolini suggested that the clause should read: "including the need for commercial prudence in limiting also export credits". After a certain amount of discussion this was accepted by the meeting, subject to stylistic tidying by personal representatives.

The paragraph in the declaration prepared by Personal Representatives relating to energy was agreed.

The meeting considered the paragraph in the draft declaration relating to relations with developing countries. An amended version of the second part of the Personal Representatives' text was agreed, subject to the amendment of a reference to "the poorest countries" to read "the poorer countries", and subject to the reinstatement in the revised draft of the reference to population growth contained in the original draft by personal representatives.

The reference to global negotiations in the Personal Representatives' draft was accepted, subject to the addition of a clause to read: "so long as the independence of the specialised agencies is guaranteed".

Mr Haig said that the United States delegation wished it to be clearly understood and on the record that the amendments proposed to the Bedjaoui declaration were accepted on the understanding that further discussions of the draft declaration in New York would be based on unanimity among the seven industrialised countries. This meant that no further changes should be accepted in the draft by any of the seven industrialised countries unless they were accepted and agreed by all.

The meeting agreed accordingly.

Israeli Invasion of Lebanon

President Mitterrand had intervened during the course of the discussion with the news that Israeli forces had invaded the Lebanon. The meeting agreed, with one minor amendment, the text of a declaration to be issued by the summit supporting the introduction of a resolution in the Security Council calling for a ceasefire and a withdrawal. It was agreed that the Chairman should announce this declaration forthwith.

The meeting adjourned for lunch at 1.45 pm.

The meeting was resumed about 3.45 pm. The revised declaration was read through, and agreed with minor drafting and stylistic amendments.

President Mitterrand said that the business of the meeting was now concluded. He would like to thank his colleagues for a constructive and useful discussion. It had been a great privilege for him to chair the discussion and for France to offer hospitality.

President Reagan expressed the gratitude of all those present to President Mitterrand both for the skill with which he had chaired the discussion and for France's hospitality in the uniquely splendid surroundings of Versailles. He had pleasure in inviting his colleagues to attend a further economic summit meeting in 1983 in the United States.

The meeting concluded at about 4.45 pm.